Tiffany (NJ) Inc. et al v. eBay Inc. Doc. 74

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

TIFFANY (NJ) INC. and TIFFANY AND COMPANY,

Plaintiffs,

-against-

eBAY INC.,

Defendant.

04 Civ. 4607 (RJS)

PLAINTIFFS' POST-TRIAL MEMORANDUM

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PRELIMINARY STATEMENT

Plaintiffs Tiffany (NJ) Inc and Tiffany and Company (collectively, "Tiffany") submit this Post-Trial Memorandum to address the issues that arose at trial and to provide record citations for the factual findings to be made by the Court. The facts and legal principles discussed herein apply to each of Tiffany's claims for infringement, unfair competition and dilution under the Lanham Act, New York law and common law. We also refer, and incorporate herein, the discussion and analysis regarding those claims and the affirmative defenses of defendant eBay Inc. ("eBay") set forth in Tiffany's Proposed Findings of Fact and Conclusions of Law, dated April 2, 2007, and Tiffany's Pretrial Memorandum of Law in Opposition to Defendant's Pretrial Memorandum, dated April 13, 2007.

eBay created a new business model, made possible by the internet. The popular legend is that eBay was originally intended as a site at which consumers could offer for sale and sell still useable items sitting in garages and basements. But it blossomed into the world's largest marketplace where anonymous sellers offer unseen and unexamined merchandise to distant buyers. Given such circumstances, it was not long before the counterfeiters and grifters of the world realized that the site could be exploited by them without risk. The worst that could happen to them was that some listings would be held or barred or that they would be suspended for a period of time from selling under a particular ID.

eBay created a system that allows sellers to act anonymously and without accountability for their illegal sale of counterfeit goods. Yet, by virtue of the information that Tiffany and others provided to it, as well as the thousands of notices of counterfeit listings filed by Tiffany under the VeRO program eBay had reason to know that there was pervasive and fundamental misuse of its system for the sale of counterfeit Tiffany goods. Indeed, it was a proverbial "rats nest". At some point, eBay had to have realized that counterfeiting was rampant. It was not just Tiffany that protested or that every year filed substantially more NOCI's than the year before. By eBay's own (likely underreported) data, the number of NOCI's filed by the top 10 filers each month went from 252,817 in 2003 to 417,235 in 2005, a rise of 60%. Yet, eBay ignored the significance of this data and would have the Court bless its studied ignorance.

Because it was on notice that a problem existed, eBay had the legal obligation to investigate and, if a problem was confirmed, to clean up that "rats nest" by taking all feasible steps to prevent the listing of counterfeit Tiffany silver jewelry. eBay conducted no such investigation, but instead continued to assert that it was Tiffany's responsibility to remedy the problem through the VeRO program.

That is not the law. The doctrine of contributory infringement has developed to deal with businesses such as eBay who profit off the sale of illegal merchandise by others. Nor is the law static and without ability to adapt. Whereas the doctrine was developed with manufacturers and distributors in mind, it has expanded to swap meets and flea markets, and there is no reason why electronic marketplaces should be exempt.

The law regarding contributory trademark infringement provides that a party is liable if it continues to offer services to those engaging in infringing conduct when it knows or has reason to know that others are doing so. Here, Tiffany has adduced abundant evidence demonstrating that eBay knew, and certainly had reason to know, that the eBay website was being pervasively used to sell counterfeit Tiffany silver jewelry. The unrebutted evidence also establishes that eBay not only controlled the ability of its sellers to use the eBay website, but also provided substantial assistance and support to those sellers. Finally, the evidence shows that, despite its knowledge and ability to exercise control, eBay failed to fulfill its legal obligations to investigate and/or to remedy the problem.

To evade the consequences of that evidence, eBay takes the position that it does not have knowledge of infringing conduct unless and until it is given notice of a specific listing of counterfeit goods and that it fulfilled its duty to act by virtue of the VeRO program. As demonstrated below, eBay's view of the law is simply wrong. There is no trademark authority that supports eBay's position. Indeed, the Supreme Court's decision in Inwood, as well as the decisions applying the Inwood holding, have never construed the knowledge requirement so niggardly. In Inwood, as well as in two court of appeals decisions involving flea markets, the evidence constituting knowledge concerns the pervasive problem, as opposed to the discrete conduct of particular individuals. And because eBay's view of the law is wrong, its entire defense collapses.

eBay knew or had reason to know of the wrongdoing on its platform, and it contributed to that misuse. The court should therefore find eBay liable for trademark infringement, false advertising, unfair competition and trademark dilution under Federal and State law and should enter an order granting Tiffany injunctive relief requiring eBay to take such affirmative steps on an ongoing and continuing basis that are technically feasible to screen for and to prevent the listing of counterfeit Tiffany silver jewelry on eBay auction sites and to remove any such listings that may appear on any of eBay's auction sites.[1]

1 Indeed, eBay has consented to similar relief in the Joint Stipulation entered on November 17, 2004 in Rosen v. eBay Inc. No. 04 CV 0989 (S.D. Cal.), which is available on Pacer and of which the Court may take judicial notice.

STATEMENT OF FACTS

The evidence offered at trial established the following facts:[2]

A. Tiffany's Trademarks

For over 170 years, Tiffany has achieved great renown as a purveyor of luxury goods under the TIFFANY Marks,[3] including items such as jewelry, watches, personal accessories and home items. Kowalski Decl. ¶¶ 4, 7. The TIFFANY Marks are unique assets of incalculable value. Naggiar Decl. ¶ 4. It is critical to Tiffany's success as a luxury goods branded retailer that the quality and integrity of the brand and trademarks be protected. Kowalski Decl. ¶ 4. The inability to do so will lead to an unacceptable loss of customer trust and goodwill. Id.

To maintain that quality and integrity, Tiffany closely controls and limits the distribution of goods authorized by Tiffany to bear the TIFFANY Marks. Kowalski Decl. ¶ 20; Zalewska Decl. ¶¶ 9-10. Since 2000, all new Tiffany jewelry has been available in the United States only through Tiffany retail stores, Tiffany catalogs, Tiffany's website at www.tiffany.com and Tiffany's Business Sales division. Kowalski Decl. ¶ 8; Cepek Decl. ¶ 10; Shibley Decl. ¶ 3. Moreover, Tiffany does not use liquidators or sell overstock merchandise or run "sales".

[2] In this Statement of Facts, Tiffany uses the defined terms employed in the Stipulated Facts submitted to the Court in the Joint Pre-Trial Order.

[3] The record shows that designations such as Peretti, Elsa Peretti, Paloma Picasso, Atlas and the Tiffany Blue registrations recited in paragraphs 10 and 11 of Tiffany's Proposed Findings of Fact are used in conjunction with the TIFFANY Marks. See PX 433, 434.

Zalewska Decl. ¶¶ 8, 10. The prices of Tiffany silver merchandise sold outside the United States do not vary significantly from the prices within the United States. Zalewska Decl. ¶ 8.[4]

B. eBay's Symbiotic Relationship With Its Seller Community

eBay has created and now operates the well-known online marketplace in which eBay's member sellers, with extensive assistance from eBay, create listings offering items for sale to eBay's member buyers in auction-style, fixed price or "Buy It Now" listings.[5] Briggs Decl. ¶¶ 9, 15. eBay exercises control over who may or may not trade on its website by requiring all users to register with eBay and sign eBay's User Agreement. Briggs Decl. ¶ 13; DX 77. If a user violates the terms or conditions of the User Agreement, eBay may take disciplinary action against the seller, including removing the seller's listings, issuing a warning and/or suspending the user. Briggs Decl. ¶ 14.

eBay exercises control over the items that are listed on its website. DX 77 at 3-4; Chesnut Decl. ¶¶ 33, 35. eBay maintains a list of prohibited items such as drugs, firearms and alcohol products, for which it routinely screens in order to keep such items from being offered for sale on eBay. PX 4. In addition, eBay runs a "fraud engine" that is purportedly designed to identify "suspicious" listings that may violate any of eBay's rules, including rules prohibiting the

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4 eBay attempts to argue that there has been a diversion of, and therefore a secondary market for, genuine new Tiffany silver jewelry. eBay Proposed Findings ¶¶ 52-53. However, eBay has not come forth with any evidence in support of that proposition, and instead relies on pure conjecture. In fact, Tiffany has not experienced any diversion of silver jewelry during the time period of its dispute with eBay. See Cepek Decl. ¶ 15; Chen Decl. ¶¶ 13-16; Shibley Decl. ¶¶ 7-9. Indeed, there is little or no economic incentive for the diversion of Tiffany merchandise into the secondary market. Zalewska Decl. ¶ 8; Chen Decl. ¶ 15. Consequently, eBay's argument about diversion is a red herring and should be wholly disregarded.

5 Under the system created by eBay, sellers may have multiple listings for the same item or one listing with multiple quantities of the same item. DX 77 at 3; Zalewska Decl. ¶ 80. In addition, sellers, who are anonymous to the public, can sell the same goods through multiple user identifications. See Tr. 671:18-672:2.

sale of the counterfeit goods or goods that infringe the trademarks of companies such as Tiffany. Tr. 581:11-582:12; Chesnut Decl. ¶ 35; DX 125. For a number of years, eBay has used filters that can delay listings that involve the sale of goods, as well as filters that look at quantity and price. Tr. 648:5-648:7, 659:10-661:23, 664:4-664:22; PX 342 at 12; PX 378; DX 125. Once the engine identifies a listing, eBay employees (known as CSRs) can review that listing to determine whether it should be taken off the eBay website. Tr. 586:17-588:10, 589:12-589:24; Chesnut Decl. ¶ 38; DX 13.

eBay has built a business model that is designed to work closely with sellers to foster the increase of their sale of goods on eBay, including Tiffany jewelry. Zeig Dep. 141:21-145:4; Tr. 406:18-407:25; PX 129; PX 184. In that regard, eBay provides substantial information and assistance to sellers. Tr. 401:10-401:23. eBay's revenue is dependent on the growth of sellers' sales activities on eBay in several ways. Tr. 406:18-407:25. When an eBay seller lists an item, eBay charges the seller an Insertion Fee, ranging from \$0.20 to \$4.80 depending on the starting price, plus a Final Value Fee, ranging from 5.25% to 10% of the final price. Briggs Decl. ¶ 20; PX 1151. eBay's Chief Marketing Officer, Gary Briggs, testified that, in 2006, approximately 33% of eBay North America's income was derived from listing fees and approximately 45% from final value fees. Tr. 407:3-407:9. eBay also profits from fees charged by PayPal, an eBay company, to process the transaction. Tr. 393:4-393:16. PayPal charges the eBay seller a fee ranging from 1.9% to 2.9% of the sale price, plus \$0.30. PX 1156.

This fee structure leads eBay to take affirmative steps designed to increase its sellers' sales. Tr. 406:18-407:25. eBay's revenue and profit growth is dependent on these actions. Tr. 406:18-407:25. Mr. Briggs testified that eBay "wants[s] to have [its] sellers understand what buyers are interested in, and [it] feel[s] that [it is] very much in the business of trying to help [its] sellers succeed." Tr. 406:23-407:2.

eBay works with its sellers to provide them with extensive assistance to help increase their sales. Tr. 401:10-401:23. eBay conducts seminars and workshops to educate sellers on growing their business. Tr. 403:11-403:14; PX 981, PX 989. eBay offers marketing advice about creating the "perfect" listing to attract buyers. Tr. 415:20-417:1; PX 1015. eBay offers an "Advanced Selling" program that provides its sellers with data and research to help them identify "hot sales opportunities." Tr. 406:4-406:17; PX 987. eBay distributes marketing calendars so that its sellers can list goods to coincide with eBay promotions. Tr. 409:2-409:19; PX 985. eBay provides "expert" consultants, whom eBay sellers may call to receive advice on growing their business. Tr. 409:25-411:4; PX 990. eBay has even established its Main Street Program, which facilitates sellers' lobbying of government officials regarding regulations and legislation that may affect their and eBay's businesses. Tr. 413:7-413:22; PX 1024.

eBay provides its top sellers, known as PowerSellers, with even greater assistance and benefits.[6] Tr. 401:10-401:23. As Mr. Briggs testified, the bigger the seller, the more support eBay provides. Id. PowerSellers are provided dedicated account managers. Tr. 427:7-427:15. eBay publishes newsletters for PowerSellers that provide further information on eBay promotions and advanced selling education. Tr. 423:6-423:12; PX 397. At all relevant times, eBay offered a co-op advertising program in which it reimbursed PowerSellers 25% of the charges that they incurred for advertisements in qualifying publications. Tr. 423:17-424:4, 440:3-440:20; PX 52; PX 397. eBay offered its PowerSellers health care benefits, Tr. 438:19-

[6] As discussed below, counterfeiters have been able to exploit the credibility and luster of being a PowerSeller to sell counterfeit Tiffany silver jewelry. See this Memo at 34, infra.

439:20, PX 52, business liability insurance, PX 406, and working lines of credit to finance their business. PX 129.

At all pertinent times, eBay management teams were responsible for overseeing the growth of products sold on eBay within each formal product category, such as Jewelry & Watches. Tr. 417:9-420:19; Poletti Dep. 13:14-13:22. The Jewelry & Watches team ran an account management program for its 20 top sellers. Zeig Dep. 31:13-35:16, 35:5-37:8; Tr. 417:9-419:23. That program provided eBay's sellers with information on business planning and auction strategy consultation. Zeig Dep. 31:13-35:16; PX 200 at 16. eBay conducted group conference calls with sellers, in which eBay shared information on such topics as eBay's marketing programs and top-searched keywords. PX 184; see PX 200 at 7; Zeig Dep. 117:18-118:11. Plaintiffs Exhibit 184, for example, shows that eBay provided its seller with "the most effective keywords for [sellers'] program," including the words that provided the best return on investments. eBay identified "Tiffany" as one of the top-searched keywords that it provided to top sellers during these calls. PX 184. When it was encouraging its top sellers to use the "Tiffany" key word, the Jewelry & Watches team gave no thought to whether the goods were counterfeit. Zeig Dep. 147:99-148:1.

In order to "boost" the sellers' sales, eBay continued to advise its sellers to take advantage of the demand for Tiffany merchandise as part of eBay's effort to grow the Jewelry & Watches category. PX 129; 995, 1038, 184, 1018, 1064, 1026; Tr. 457:20-460:3. For instance, in 2004, a PowerSeller newsletter to jewelry sellers advised Power Sellers to "us[e] recommended keywords to boost sales." "Tiffany & Co." is among the recommended keywords provided. PX 129. eBay provides all its users with, documents such as the "Hot Categories Report." PX 995. eBay's description for The Hot Categories Report is: "Hot . . . Very Hot . . .

Super Hot! Discovery which categories and products are on fire – where bid to item ratios are high and demand is outpacing supply!" PX 1026; see also PX 287. eBay published a report in the Seller Central section of its website in September 2006 that told sellers that "Tiffany" is a "hot" keyword among buyers in the Jewelry & Watches category. PX 995. eBay provides its users with what it calls the "Holiday Hot List." PX 1018. As Mr. Briggs acknowledged, the "Holiday Hot List" "suggest[s] to our sellers the types of items that our buyers will have interest in during the holiday season. Tr. 457:20-459:3. The Holiday Hot List distributed in the Seller Central section of eBay's website in September 2006 states: "to help [sellers] prepare, we have created a detailed list of products predicted to be in high demand and short supply this holiday season". PX 1026. eBay included "Tiffany" on its "Holiday Hot List." PX 1018. Finally, eBay encourages its sellers to view the eBay Pulse webpage, which tracks buyer trends, "hot picks," "top searches" and "most watched items." PX 1026; Tr. 461:4-464:19. In September 2006 and March 2007, eBay told users that the terms "Tiffany" and "Tiffany & Co." were top search terms. PX 1038, PX 1164.

eBay recognizes that its "buyers are very interested in brands." Tr. 446:21-446:25. In order to attract potential buyers to its website, eBay has devoted a significant effort to assisting the growth of eBay sellers in the Jewelry & Watches category. Tr. 418:11-419:23; Poletti Dep. 13:6-13:22. Indeed, eBay considers itself to be a competitor of Tiffany and the principal source of "value" pricing of Tiffany jewelry. Poletti Dep. 72:19-72:22, 74:16-75:13. eBay regularly conducts promotions to increase bidding on auctions and to increase sales of fashionable and luxury brands, including Tiffany. Zeig Dep. 49:15-50:15, 64:5-67:6; PX 61; PX 63.

Prior to receiving a demand letter from Tiffany in 2003, eBay actively advertised the availability of Tiffany merchandise to purchase, by displaying the TIFFANY Marks on its homepage and greeting pages. PX 392; PX 1064. Additionally, eBay purchased sponsored link advertisements on Yahoo! and Google advertising the availability of "Tiffany" items. Briggs Decl. ¶ 25; PX 491; PX 1065. Sometime after Tiffany's protest in May 2003, eBay advised Tiffany that it had ceased purchasing those links. Briggs Decl. ¶¶ 25, 32. Nevertheless, eBay continued to reimburse sellers who registered as "affiliates" for buying sponsored links on Google that advertised the sale of Tiffany jewelry on eBay because advertisements drove business to eBay.[7] PX 477-480, 482; Tr. 469:4-470:2.

As a result, eBay has generated substantial revenues from the sale of "Tiffany" silver jewelry since 2000. Poletti Dep. 59:15-62:9. Between April 2000 and August 2005, there were 456,551 sales of Tiffany jewelry in the Jewelry & Watches category.[8] PX 394 at 1. eBay's Jewelry and Watches Category Manager estimated that, between April 2000 and June 2004, eBay earned $4.1 million in revenue from completed listings with "Tiffany" in the listing title in the Jewelry & Watches category. Poletti Dep. 59:15-62.9.

C. eBay Knows that It Is a Principal Source for Counterfeit Tiffany Silver Jewelry

Sometime in 2003, Tiffany observed that the largest marketplace, by far, for the sale of counterfeit Tiffany silver jewelry was eBay. Kowalski Decl. ¶ 28; Tr. 841:11-841:16. Indeed, it brought civil actions against several eBay sellers: Katz Jewelers, Inc., Starglam.com, Inc. (which

[7] Under the "affiliate" program that Commission Junction ran on behalf of eBay, Tr. 469:4-469:18, Commission Junction reimbursed the affiliate advertiser for directing business to eBay through sponsored link advertisements. Briggs Decl. ¶ 35; PX 481, 1013; Tr. 469:4-470:2. eBay provided the funds used to reimburse these affiliates. Tr. 469:19-470:2. After it ceased purchasing links itself, eBay never instructed Commission Junction to preclude its affiliates from using "Tiffany" as a sponsored link. Tr. 472:2-472:19.

[8] This figure consists of completed sales for the following subcategories: Body Jewelry, Bracelets, Charms & Charm Bracelets, Children's Jewelry, Designer Brands, Earrings, Men's Jewelry, Necklace & Pendants, Pins & Brooches, Rings. PX 394. The calculations exclude numerous types of "Tiffany" items not at issue here, e.g., loose beads, watches, and ethnic and tribal jewelry.

was also criminally prosecuted), Erika Hughes and David Verbout. Tr. 838:25-840:4; Kowalski Decl. ¶¶ 15-16. Tiffany also pursued over 600 enforcement actions. Tr. 801:2-801:21. As the amount of counterfeit Tiffany silver merchandise available on eBay continued to grow, Tiffany made the decision that it was not economical to pursue legal action against individual sellers of counterfeit Tiffany merchandise on eBay. Tr. 800:20-805:6. Rather, it concluded that it was most effective to address the problem by confronting eBay. Tr. 804:11-805:6, 816:23-817:17; Kowalski Decl. ¶¶ 22-23.

In May 2003, Tiffany directed its outside counsel to write eBay to complain about the problem of counterfeit Tiffany jewelry on eBay and to seek eBay's cooperation in stopping the illegal conduct. Kowalski Decl. ¶ 17; PX 489. In that letter, Tiffany advised eBay that there are no authorized third-party vendors for Tiffany merchandise and that it should therefore "be apparent to eBay that any seller of a significant lot – i.e. five pieces or more – of purported 'Tiffany' jewelry is almost certainly selling counterfeit merchandise."[9] Kowalski Decl. ¶¶ 17-18; PX 489. eBay responded by encouraging Tiffany to utilize a third party program, Ranger Online, to report counterfeit items to eBay,[10] but rebuffed Tiffany's request to remove listings for "Tiffany" items for which the seller had listed multiple "Tiffany" items. PX 490.

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[9] Tiffany believed that the number "five" was a conservative estimate as an indicator that a seller was offering counterfeit Tiffany merchandise. This number is based, in part, on the fact that Tiffany is primarily a gift store and that the purchase of multiple items is not common. Tr. 795:17-797:2 Also, Tiffany has a liberal return policy with a 30-day full money-back guarantee. It is thus difficult to imagine a circumstance where a seller would sell new Tiffany jewelry for substantially less than retail on eBay, let alone 5 or more Tiffany pieces. Tr. 795:17-797:2; Zalewska Decl. ¶ 21. Based on its experience, Tiffany concluded that this yardstick was reliable. Tr. 220:6-220:17.

[10] Tiffany attempted to use Ranger Online, but found it ineffective because the program merely conducted keyword searches for Tiffany. Tr. 227:14-228:2 Tiffany still had to review the listings and report the items to eBay. Tr. 227:14-228:2. Moreover, Ranger Online allowed a rights owner to report only one listing at a time and even eBay was not happy with Tiffany's use of Ranger Online. DX 81.

Tiffany then attempted to curtail the problem by participating in eBay's VeRO program. Zalewska Decl. ¶ 22. Tiffany employees monitored eBay, and submitted Notices of Claimed Infringement ("NOCI's") to eBay for the listings that they had a good faith belief infringed on the TIFFANY Marks. Id. ¶ 35; PX 968. eBay removed the listings at Tiffany's request, but apparently nothing more. Zalewska Decl. ¶ 43. There is no evidence, other than unsubstantiated assertions, that eBay actually suspended these sellers even temporarily, much less permanently.[11] Tr. 631:4-631:9; PX 1136.

Even after approximately one year of steady reporting to eBay, the number of listings for counterfeit Tiffany merchandise increased. PX 1082; Zalewska Decl. ¶¶ 75-76; Kowalski Decl. ¶ 22. From the time of eBay's June 2003 refusal to prohibit sellers from offering five or more "Tiffany" items through May 2004, Tiffany reported 46,252 infringing listings. PX 1082.[12] Indeed, by August 2003, Tiffany had catapulted to the top of the list of rights owners filing notices in the VeRO program, and was the second largest reporter as of that time. DX 81; PX 92.

The vast majority of counterfeit "Tiffany" merchandise sold on eBay is of a significantly inferior quality, resulting in a meaningful loss of goodwill for Tiffany among the purchasers of those goods, as evidenced by the numerous complaints that Tiffany received from eBay buyers.

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[11] eBay proffered conclusory evidence regarding its suspension policies, and asserted that it was its practice to suspend repeat sellers of counterfeit goods. Chesnut Decl. ¶ 46. However, even though eBay has the ability to identify and obtain such information, Piatetsky-Shapiro Decl. ¶¶ 74-84. eBay claims that it is unable to provide any data regarding the number of individuals that it suspended as a result of either Tiffany's NOCI's or eBay's supposed proactive efforts to review listings for the sale of Tiffany jewelry. PX 1136. In other words, even though eBay is the sole source of the data and is able to provide that data, it has failed to proffer any evidence that substantiates its claim that it suspended sellers who listed counterfeit Tiffany silver jewelry for sale.

[12] The figures from PX 1082 represent only reported listings. Zalewska Decl. ¶ 74. The actual number of reported items is greater because a single listing may have offered multiple "Tiffany" items. Zalewska Decl. ¶ 80; see DX 77 at 3.

Lange Decl. ¶ 6. Between April 2003 and October 2007, Tiffany's Customer Service Department received over 3,900 emails regarding "Tiffany" items on eBay. The majority of the emails regarded questions about whether the product was fake and whether Tiffany was aware of the problem. Id. As a result of the numerous people who encountered counterfeit Tiffany merchandise through eBay, the TIFFANY Marks and Tiffany's reputation as a purveyor of high quality jewelry have been diluted and tarnished. Naggiar Decl. ¶¶ 19-20.

At the beginning of 2004, in order to assess the extent of the problem, Tiffany conducted a survey, in which it purchased at random silver jewelry items available on eBay that used "TIFFANY sterling" in the listing (the "2004 Buying Program"). Zalewska Decl. ¶¶ 61-62; Mantis Decl. ¶¶ 5, 10. In accordance with the Mantis protocol, Tiffany's law firm conducted the survey, and purchased 186 pieces of "Tiffany" silver jewelry. Grasso Decl. ¶¶ 3, 33. Tiffany's quality management personnel inspected and evaluated each of these items. Callan Decl. ¶¶ 14-17, 31. They found that 136 items, or 73.1%, were counterfeit and only 5% were genuine. Grasso Decl. ¶ 33; Mantis Decl. ¶ 20; PX 434. The balance, 21.9%, was potentially actionable, but not pure counterfeits (e.g., they were "imitation"). Mantis Decl. ¶ 20; PX 434.[13]

In June 2004, because of the 2004 Buying Program's results and the increased number of listings, Tiffany once again wrote to eBay to demand that eBay take action. Kowalski Decl. ¶ 22; PX 492. In the letter, Tiffany advised eBay about the results of the 2004 Buying

[13] In the Spring of 2005, after this action was commenced, Tiffany repeated its survey, in order to determine whether the number of counterfeit items being listed on eBay continued to be predominantly counterfeit (the "2005 Buying Program"). Grasso Decl. ¶¶ 35-36; Zalewska Decl. ¶ 66. The results of the 2005 Buying Program were strikingly similar, as Tiffany's quality management personnel found that 75.5 % of the 139 items purchased were counterfeit. Mantis Decl. ¶ 20; PX 433.

Program.[14] PX 492. Despite the details letter regarding the 2004 Buying Program, eBay did not respond to the letter or show any interest in learning any information about the 2004 Buying Program. Kowalski Decl. ¶ 23.

Even after Tiffany commenced this action, it continued to participate in the VeRO program and to advise eBay of the pervasive listing of counterfeit goods. Zalewska Decl. ¶¶ 67, 76-79. In each year from 2003 through 2006, Tiffany reported substantially more listings than it did the year prior. PX 1082. In 2003, Tiffany reported 20,915 infringing listings. In 2004, Tiffany reported 45,242 infringing listings. In 2005, Tiffany reported 59,012 infringing listings. In 2006, Tiffany reported 134,779 infringing listings. Zalewska Decl. ¶ 78; PX 1082; Tr. 97:20-99:18. As of September 30, 2007, Tiffany reported 24,201 infringing listings in 2007. Zalewska Decl. ¶ 79. All told, Tiffany reported 284,149 infringing listings. Zalewska Decl. ¶ 80; Tr. 195:1-195:8. According to eBay's own monthly records, of the 14,000 rights owners who participate in the VeRO program, Chesnut Decl. ¶ 17, Tiffany was among the top 10 reporters in 21 of the 28 months between June 2003 and September 2005. PX 253-283.[15]

At the same time that Tiffany was complaining to eBay about the sale of counterfeit goods, buyers were also complaining to eBay.[16] PX 493-645. Based on the limited discovery

[14] The letter's statements regarding the 2004 Buying Program were not general and vague. Rather, the letter described the program to purchase sterling silver products at random, in accordance with a protocol designed by an expert retained by Tiffany. Further, it disclosed that 186 pieces were purchased between January 26 and February 20, 2004, at prices ranging from $8.95 to $395. Finally, it disclosed that, after physically inspecting those goods, Tiffany determined that no less than 73% of the goods were counterfeit and that only 5% of the goods were genuine. See PX 492.

[15] eBay's data is incomplete. For instance, PX 282 and PX 283, the monthly reports for November and December 2005, respectively, inexplicably do not show any notices from Tiffany. See also PX 261, 276, 277, 281. In fact, Tiffany reported 6,932 and 2,024 listings during those two months, and thus should have been recorded as the number one reporter in November. PX 1082.

[16] For example, one customer said: "I purchased this Tiffany's ring, which I now believe is counterfeit. I have emailed the seller, without any response. I also noticed that another buyer recently bought a pair of earrings from this same seller that also ended up being counterfeit." PX 641.

that eBay provided, 125 consumers complained to eBay during the last six weeks of 2004. PX 493-645. In addition, the court has heard testimony from individuals regarding the purchase of counterfeit goods that sellers falsely represented were new and genuine. Badart Decl. ¶¶ 3-12; Byron Decl. ¶¶ 7-16, 20; Lahood Decl. ¶¶ 4-8, 14. All of these consumers complained to eBay and/or PayPal. Badart Decl. ¶ 14; Byron Decl. ¶ 17; Lahood Decl. ¶ 9. For instance, in November 2005, Elizabeth Badart purchased what she believed to be genuine Tiffany bracelet and earrings from an eBay seller. Badart Decl. ¶ 7. Once she received them, it was clear to her that the "Tiffany" items were fake. Badart Decl. ¶ 11. Ms. Badart complained to PayPal on November 8, 2005, and it took repeated efforts over the next month before Pay Pal sent her a refund. Baldart Decl. ¶¶ 14-20.

Reporting listings through the VeRO program was an arduous and unsatisfactory process. Cacucciolo Decl. ¶¶ 42, 45-48; Zalewska Decl. ¶¶ 83-85, 87-88; Tr. 203:21-207:3. Because Tiffany could not evaluate a listing any sooner than any member of the public, a counterfeit Tiffany item was often sold before Tiffany has a chance to report the listing. Cacucciolo Decl. ¶ 47; PX 1075; PX 1077; PX 1078. Moreover, there were overwhelming numbers of "Tiffany" listings on eBay at any given time. Tr. 203:21-205:8. Zalewska Decl. ¶ 83; Cacucciolo Decl. ¶ 47. From early 2003 through 2006, a search for "Tiffany" and "silver" could return upward of 1,000 results. Zalewska Decl. ¶ 83. Because eBay required a good faith belief that every listing is infringing in order for a rights owner to report it, Tr. 626:21-628:4, Tiffany had to review each and every listing before it could submit NOCI's. Zalewska Decl. ¶¶ 27, 34-35. Yet, Tiffany simply could not review every "Tiffany" listing in a day. Zalewska Decl. ¶ 83; Tr. 203:21-205:8. This problem was compounded by the fact that new items were constantly being added to the site, and Tiffany just could not keep up. Zalewska Decl. ¶ 83; Cacucciolo Decl. ¶ 47; Tr. 204:8-204:15.

D. eBay Has Failed to Stop the Listing of Counterfeit Tiffany Silver Jewelry

eBay relies on its VeRO program to show that it is purportedly responding to the listings of counterfeit goods. Chesnut Decl. ¶ 15; eBay Proposed Findings of Fact ¶¶ 9-14. That program shifts the responsibility to the rights owners such as Tiffany, Chesnut Decl. ¶¶ 15-17, and enables eBay to profit from the sale of counterfeit merchandise unless and until the rights owner submits a NOCI with respect to a listing and eBay acts before a sale is concluded.

When Tiffany submitted NOCI's to eBay, eBay took listings down. Zalewska Decl. ¶ 87. However, as noted above, there is no evidence that eBay took any long term actions against the sellers listings those goods (i.e., whether it banned those sellers from using eBay to sell goods). See this Memo at 11, supra. Nor did eBay ever investigate whether Tiffany's or its customers' complaints were valid. Tr. 682:24-684:15.

Tiffany found that using the VeRO program to eliminate the listing of counterfeit goods was both frustrating and insufficient. Kowalski Decl. ¶ 19; Zalewska Decl. ¶¶ 83-85, 87-88. The VeRO program did not meaningfully mitigate, let alone eradicate the problem, as eBay's own data shows that, between April 2000 and August 2005, 456,551 pieces of Tiffany silver jewelry were sold on eBay in spite of all of the NOCI's submitted by Tiffany. PX 394.

eBay contends that it used its "fraud engine" to review listings of Tiffany goods and that it proactively took down such listings on its own without getting any notices from Tiffany. Chesnut Decl. ¶¶ 37-38; Tr. 664:4-665:3; DX 125. However, eBay produced no evidence regarding the number listings that it purportedly took down, Tr. 594:13-594:17, nor produced any evidence at trial of any examples of listings that it proactively took down.

eBay's fraud engine was inherently insufficient to do the job. Piatetsky-Shapiro Decl. ¶¶ 17-26. The filters that eBay employed looked exclusively for listings that admitted that the goods were not genuine. Piatetsky-Shapiro Decl. ¶¶ 18-24; DX 135; PX 1096. Thus, the fraud engine could not detect listings that falsely stated that the goods were new and genuine. Piatetsky-Shapiro Decl. ¶ 24; Tr. 738:12-740:20.

After it saw in August 2003 that Tiffany had become the second largest reporter under the VeRO program, see DX 81, eBay contends that it took action to address that problem. Tr. 743:13-744:20. According to eBay, the plan was to adopt better filters to detect the sale of counterfeit goods. Kammerath Dep. 108:24-109:22; Tr. 744:10-744:20. Yet, eBay never adopted any new filters other than the "replica" filters that it had always used. See PX 1096; Piatetsky-Shapiro Decl. ¶¶ 18-24. The failure of eBay to take any further action is corroborated by the growing numbers of NOCI's that Tiffany filed each year.[17] PX 1082; Zalewska Decl. ¶¶ 74-78.

eBay could have taken steps to implement filters and other measures to prevent the sale of counterfeit merchandise. Piatetsky-Shapiro Decl. ¶ 14; Tr. 664:4-664:22, 659:10-659:13, 665:4-665:11, 738:12-740:20. Yet, it did not do so. Piatetsky-Shapiro Declaration ¶ 14, 54; Tr. 324:16-325:18. For instance, in late 2006, eBay began to delay the ability of buyers to view on the website listings that use certain brand names, including Tiffany, for 6 to 12 hours in order to conduct manual reviews of these listings. Tr. 655:23-656:14. eBay uses that delay to

[17] eBay disputes that such an inference should be drawn from the increasing number of resources devoted to VeRO reporting by Tiffany. Tr. 100:14-100:18 However, during the period 2003 through 2005, when Tiffany employed approximately the same level of resources for VeRO reporting, see Tr. 83:9-84:2, Zalewska Decl. ¶ 67, those notices steadily increased. PX 1082. Thus, Tiffany's increase in resources devoted to VeRO reporting in 2006 cannot be used to dispute that the problem continued to grow after Ms. Kammerath's comments in August 2003.

determine whether the sellers will be allowed to offer such items. Tr. 654:9-654:23. Yet, as early as 2004, it was technically feasible for eBay to delay listings, including for "Tiffany silver". Tr. 665:4-665:11. It also was feasible in 2004 for eBay to implement quantity filters that flagged listings offering multiple items. Tr. 659:10-659:13. Had eBay employed these filters at that time, an eBay CSR could have reviewed such listings, as well as the sellers' other listings. Tr. 666:1-667:2. If the CSR found that the flagged listing or any of the sellers' other listings were "suspicious", the CSR could have taken them down. Tr. 587:19-589:24.

eBay's filters for "Tiffany" items were also inadequate because they were applied to only one listing at a time. Piatetsky-Shapiro Decl. ¶ 17; Tr. 354:6-354:19. Since eBay's sellers of counterfeit goods tend to offer many items for sale, a more effective approach would have been to apply the filters to sellers with characteristics indicative of a counterfeiter. Piatetsky-Shapiro Decl. ¶ 17. Tiffany's expert, Dr. Gregory Piatetsky-Shapiro, has been a leader in the field of data mining since its beginnings in the late 1980s. Piatetsky-Shapiro Decl. ¶¶ 2-6; PX 1041. He demonstrated that, using data mining techniques commonly used by corporations, eBay could have designed programs that identified listings of likely counterfeit Tiffany items and the sellers thereof. Piatetsky-Shapiro Decl. ¶¶ 14, 26-29; Tr. 357:3-357:15. Indeed, Dr. Piatetsky-Shapiro's "suspiciousness" criteria come directly from eBay's own documents for its CSRs describing the indicia of "suspicious" behavior. Piatetsky-Shapiro Decl. ¶¶ 30-31; PX 340, 344 at 5-6, 10-12; Tr. 324:16-325:10; Fultz Dep. 68:7-68:11, 77:16-78:5, 81:1-82:2, 85:1-88:1, 94:5-103:23.

ARGUMENT

A party is liable for contributory trademark infringement if it has "intentionally induce[d] another to infringe a trademark," or has continued to offer its services to those other parties whom "it knows or has reason to know is engaging in trademark infringement." Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844, 854 (1982) (footnote omitted) (citing William R. Warner & Co. v. Eli Lilly & Co., 265 U.S. 526, 530-31 (1924), and Coca-Cola Co. v. Snow Crest Beverages, Inc., 64 F. Supp. 980, 989 (D. Mass. 1946), aff'd, 162 F.2d 280 (1st Cir.), cert. denied, 332 U.S. 809 (1947)).[18]

The "reason to know" element of a claim for contributory infringement requires the defendant to "understand what a reasonably prudent person would understand . . . ." Hard Rock Cafe Licensing Corp. v. Concession Services, Inc., 955 F.2d 1143, 1149 (7th Cir. 1992) (citations omitted). This analysis is fact-specific, asking whether "a reasonable person in the defendant's position would realize either that [it] had created a situation" likely to result in infringement, or "was dealing with a customer whom [it] should know would be peculiarly likely to use the defendant's product wrongfully." Snow Crest, 64 F. Supp. at 989; accord Power Test Petroleum Distributors, Inc. v. Manhattan & Queens Fuel Corp., 556 F. Supp. 392, 394 (E.D.N.Y. 1982) ("a determination of liability for contributory infringement turns on the factual issue of knowledge: Assuming defendant had no control over subsequent entities in the chain of distribution, did it nonetheless have reason to be aware that plaintiff's mark was being infringed?"); see 4 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 25:19 at 25-44 (4th ed. 2004) ("the ordinary business person cannot claim innocence if the

18 At oral argument on November 20, eBay contended that the Supreme Court disapproved of Snow Crest in Inwood and urged this Court to disregard the Snow Crest decision altogether. Tr. 875:10-875:25. In fact, the Supreme Court did no such thing, as made explicit in its positive citation of Snow Crest on page 854 and the absence of any criticism of Snow Crest. Further, numerous decisions after Inwood have affirmatively cited and relied on Judge Wyzanski's decision in Snow Crest. E.g., National Federation of the Blind, Inc. v. Loompanics Enterprises, Inc., 936 F. Supp. 1232, 1245 (D. Md. 1996); Power Test Petroleum Distributors, Inc. v. Manhatten & Queens Fuel Corp., 556 F. Supp. 392, 395 (E.D.N.Y. 1982) (McLaughlin, J.) (Snow Crest is "the seminal case on contributory infringement."). Thus, this Court should reject eBay's attempt to disparage that decision.

facts are such that any reasonable person in such a position should have known that it was actively participating in an operation which constituted unfair competition or trademark infringement." (footnote omitted)).[19]

The law of contributory infringement requires a defendant proactively to remedy the problem at the very moment that it knew or had "reason to know" that the infringing conduct was occurring. Snow Crest, 64 F. Supp. at 989 (it would have been a "breach of duty for defendant to have continued sales to bars without taking some precautionary measures if it had known or a normal bottler would have known, that most bar customers specifically ordered Coca-Cola and that consequently a normal bottler would infer from defendant's large volume of sales that many bars which bought defendants' products were using defendant's product as a substitute in the case of specific orders of Coca-Cola . . . ."). At that point, a defendant may avoid liability only if it took "effective measures to prevent infringing uses . . . ." Sealy, Inc. v. Easy Living, Inc., 743 F.2d 1378, 1382 (9th Cir. 1984) (citation omitted).

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[19] At oral argument, the Court requested the parties to address the seeming tension between the majority's decision and Justice White's concurrence in Inwood and, in particular, what it means with respect to the issue of whether a generalized notice of infringement is sufficient or a specific one is required. Tr. 902-03. Justice White expressed concern about whether the majority was adopting a "could reasonably anticipate" standard or, in other words, a negligence standard. 456 U.S. at 861-62. The Inwood majority addressed Justice White's concerns and stated that they were unfounded. It was not adopting such a standard. Id. at 854 n.13. As the majority made clear, the standard (for the purposes of this case as well) is "knows or has reason to know . . . ." Id. at 856; accord Polymer Technology Corp. v. Mimran, 975 F.2d 58, 64 (2d Cir. 1992); SB Designs v. Reebok International, Ltd., 338 F. Supp. 2d 904, 912 (N.D. Ill. 2004); Government Employees Insurance Co. v. Google, Inc., 330 F. Supp. 2d 700, 705 (E.D. Va. 2004); United States v. Chemicals for Research & Industry, 10 F. Supp. 2d 1125, 1128 (N.D. Cal. 1998). This issue, of course, is different from the issue of whether notice must be general or particularized. As discussed below, Inwood involved a "pattern of illegal substitution and mislabeling", i.e., general notice, but the Supreme Court's reversal of the Second Circuit's decision was not based on that fact. See this Memo at 23, infra. Accordingly, if anything, Inwood supports the proposition that generalized notice, i.e., notice of a pervasive condition as opposed to of each particular instance creating that situation, is sufficient.

At a minimum, a party with knowledge must conduct an investigation to determine whether it is facilitating the infringing conduct. See Louis Vuitton S.A. v. Lee, 875 F.2d 584, 590 (7th Cir. 1989). ("Knowing as she must have that [the goods] are expensive brand-name goods unlikely to display [as they did] poor workmanship, to be lined with purple vinyl, and to be sold by itinerant peddlers at bargain-basement prices [defendant] was obligated at the very least to ask her supplier whether the items he was selling her were genuine Vuitton and Gucci merchandise or counterfeit."); Tommy Hilfiger Licensing, Inc. v. Goody's Family Clothing, Inc., No. 1:00-CV-1934-BBM, 2003 WL 22331254 at *18-19, 21 (M.D. Ga. May 9, 2003). If the party refuses to engage in an investigation when it knows, or has reason to know, that infringing conduct is occurring, that party is guilty of "willful blindness" and is deemed to have knowledge of the infringing conduct. See Louis Vuitton, 875 F.2d at 590; Hard Rock, 955 F.2d at 1149 ("to be willfully blind, a person must suspect wrongdoing and deliberately fail to investigate"); Levi Strauss & Co. v. Diaz, 778 F. Supp. 1206, 1208 (S.D. Fla. 1991).

POINT I

TIFFANY HAS PROVEN THAT INWOOD'S KNOWLEDGE REQUIREMENT IS SATISFIED

The evidence establishes that eBay, in fact, knew that a significant portion of the Tiffany silver jewelry listed for sale on its website was counterfeit and knew that its sellers were infringing the TIFFANY Marks by selling counterfeit goods. At a minimum, that evidence establishes that eBay had reason to know that such conduct was occurring.

In contrast, eBay contends that it did not possess the requisite knowledge until it received notices from Tiffany, or otherwise learned, that a particular listing was for infringing goods. Tr. 24, 880-82. According to eBay, until it received such information, it lacked the knowledge required under Inwood. eBay's contention, however, is based on a flawed and unsubstantiated view of the law. At its core, eBay contends that knowledge cannot arise until a defendant knows or has reason to know that a particular seller is offering counterfeit goods in a particular listing. The law is not that inflexible. The test for knowledge is a reflection of the marketplace in which the conduct is occurring, and the courts have flexibly looked at the circumstances to assess the breadth of the actual or constructive knowledge that is required.

Here, the situation on eBay with respect to the sale of Tiffany silver jewelry was a "rats nest", as both the anecdotal and quantitative evidence establishes that the listings for Tiffany silver jewelry overwhelmingly consisted of counterfeit goods. Thus, the knowledge requirement is satisfied if eBay had knowledge that the "rats nest" existed – it is not necessary to establish that eBay had knowledge of each and every particular rat infesting the nest in order for the obligation to remedy the infringing conduct to arise. In other words, eBay's obligation to act is not limited to just the particular and individual listings that have been brought to its intention.[20]

A. There Is Requisite Knowledge When a Party Knows, or Has Reason to Know, that the Marketplace that It Has Established Is Used to Sell Counterfeit Goods

eBay's view of the law is based erroneously on limiting the holdings and rules established by Inwood and its progeny to the particular facts of that case. Not only is that type of analysis flawed, but the case law regarding the knowledge component belies eBay's fact-constrained construction of the knowledge requirement.

[20] This proposition does not mean that eBay does not have an obligation to act when it learns that a particular listing is for counterfeit or infringing goods or that a seller is selling such goods. Rather, it means that identification of each such listing or seller is not required as a condition to the duty to act when the eBay site is rife with such problems and eBay knows or has reason to know that such is the case.

Snow Crest involved the traditional factual circumstances to which the doctrine of contributory infringement applies – the downstream use by third parties of goods manufactured by the defendant to engage in infringing conduct. See 64 F. Supp. at 987-89. Thus, the court assessed the quality of the evidence regarding whether the defendant knew that third parties were using the defendant's goods to infringe the plaintiff's mark.

Similarly, in Inwood, the inquiry was whether the defendant had supplied its product (pill capsules) in a way that invited or facilitated pharmacists generally to engage in infringing conduct. 456 U.S. at 851-52, 854-55. The Second Circuit had reversed the trial court, and held that the trial court failed to take into account the evidence of the "pattern of illegal substitution and mislabeling in New York . . . ." Id. at 855-56 (ellipsis in original; footnote omitted). The Supreme Court reversed that holding, not because it was contrary to the standard for contributory infringement, but because the Second Circuit had improperly weighed the evidence de novo and because the trial court's findings of fact were not clearly erroneous. Id. at 856 & n.16. In other words, under the principles set forth in Inwood, had the plaintiff case come forward with substantial evidence that the defendant knew or had reason to know of a pattern of illegal conduct concerning the use of the defendant's goods in the marketplace, a finding of contributory negligence would have been sustainable.

In addition, over the course of time, the courts have applied Inwood to different circumstances, and have not limited liability for contributory infringement to situations involving misuse of a manufacturer's goods downstream. For instance, the Eleventh Circuit confronted the issue in the context of a franchise relationship. See Mini Maid Services Co. v. Maid Brigade Systems, Inc., 967 F.2d 1516 (11th Cir. 1992). Although the court held that the facts did not give rise to a claim for contributory infringement,[21] the court articulated (in a manner applicable to the issue in this action) how knowledge could be determined in that situation:

> In addition, the court may wish to consider the extent and nature of the violations being committed. If the infringement is serious and widespread, it is more likely that the franchisor knows about and condones the acts of its franchisees.

Id. at 1522 (footnote omitted).

In Habeeba's Dance of the Arts, Ltd. v. Knoblauch, 430 F. Supp. 2d 709 (S.D. Ohio 2006), the court confronted a claim for contributory infringement against the landlord of space used by the infringing party. The court held that such a claim had been sufficiently alleged because the defendant had notice of the infringing conduct, the defendant exercised enough control over use of the facility and the defendant allowed the premises to be used for the infringing conduct. Id. at 714-15.

The courts' broad application of Inwood manifests itself in the two court of appeals' decisions addressing claims for contributory infringement in the context of flea markets. See Fonovisa Inc. v. Cherry Auction, Inc., 76 F.3d 259 (9th Cir. 1996); Hard Rock, 955 F.2d at 1148-50. Those decisions are particularly apposite because flea markets are simply the brick and mortar counterpart to the virtual marketplace designed, established and operated by eBay.

In Hard Rock, the Seventh Circuit held that the flea market would have knowledge if it "suspect[ed] wrongdoing and deliberately fail[ed] to investigate."[22] 955 F.2d at 1149 (citation

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21 The district court had erroneously focused on whether the defendants had supervised their franchisee with reasonable diligence, as opposed to whether the defendants had intentionally induced infringing acts or actively participated in an infringement scheme. 967 F.2d at 1522.

22 In Hard Rock, the court hewed to Inwood's standard for knowledge, holding that a defendant is responsible "to understand what a reasonably prudent person would understand," and that the law does not impose a duty to seek out and prevent violations. 955 F.2d at 1149.

omitted). Further, in remanding the case for trial, the court observed that, even though it would not prejudge the matter, evidence that the operator of the flea market saw the infringing shirts, their condition and the price and that the operator had not asked if the goods were counterfeit because the infringing parties "were sure to lie to him" gave rise to an inference that the operator chose not to investigate because he suspected that the goods were counterfeit. Id.

In Fonovisa, the Ninth Circuit reversed the trial court's decision dismissing a claim against a swap market operator with respect to the sale of counterfeit recordings. 76 F.3d at 261-62. The court confronted a situation involving a "rats nest". There was evidence of the pervasive sale of counterfeit recordings by numerous vendors operating at the swap market. The premise for liability was that the market's operator was supplying the necessary marketplace for the sale of counterfeit goods in substantial quantities. Id. at 264-65. The plaintiff sued, among other things, to compel the defendant to police the swap meet. See Fonovisa, Inc. v. Cherry Auction, Inc., 847 F. Supp. 1492 (E.D. Cal. 1994), rev'd, 76 F.3d 259 (9th Cir. 1996). Applying the holding in Hard Rock, the Ninth Circuit held that "a swap meet can not disregard its vendors' blatant trademark infringements with impunity." 76 F.3d at 265. When addressing the knowledge element in the earlier portion of its opinion dealing with the contributory copyright infringement claim, the court held there was no question that the alleged facts established knowledge.[23] Id. at 261. The court therefore reinstated the complaint, and remanded the action to the trial court.

[23] Two years before the Fonovisa action was commenced, the sheriff's office had raided the swap meet and seized more than 38,000 counterfeit recordings. The next year, the sheriff advised the defendant that counterfeit recordings were still being sold the swap met, and the plaintiff sent its own investigator to the meet and made the same observation. 76 F.3d at 261.

eBay premises its narrow view of knowledge and the need to have knowledge of a specific instance of infringement on A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004 (9th Cir. 2001). See Tr. 880-81. eBay's contention is erroneous and should be rejected.

First, as described above, that narrow interpretation of the knowledge requirement has not been applied under Inwood and its progeny. Second, eBay's reading of Napster is wrong. The Ninth Circuit stated:

> The district court determined that plaintiffs in all likelihood would establish Napster's liability as a contributory infringer. The district court did not err; Napster by its conduct, knowingly encourages and assists the infringement of plaintiffs' copyrights.
>
> Contributory liability requires that the secondary infringer "know or have reason to know" of direct infringement. The district court found that Napster had both actual and constructive knowledge that its users exchanged copyrighted music. The district court also concluded that the law does not require knowledge of "specific acts of infringement" and rejected Napster's contention that because the company cannot distinguish infringing from noninfringing files, it does not "know" of the direct infringement.
>
> It is apparent from the record that Napster has knowledge, both actual and constructive, of direct infringement.

239 F.3d at 1020 (citations and footnote omitted). The Ninth Circuit did not criticize that ruling – rather, it held that the district court had failed to consider the holding in Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417 (1984). 239 F.3d at 1020. It is in that context that the Ninth Circuit made the statement, from which eBay misleadingly quoted a snippet at closing argument (see Tr. 880-81):

> We agree that if a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system, the operator knows of and contributes to direct infringement. Conversely, absent any specific information which identifies infringing activity, a computer system operator cannot be liable for contributory infringement merely because the

structure of the system allows for the exchange of copyrighted material.

Id. at 1021 (citations omitted). Despite that distinction, because of the evidence of wholesale misuse, the Ninth Circuit sustained the holding that sufficient knowledge existed. Id. Finally, it is worth noting that subsequent courts have rejected eBay's interpretation of Napster. See Arista Records, Inc. v. Flea World, Inc., No. 03-2670, 2006 WL 842883 at * 14-15 (D.N.J. Mar. 31, 2006): UMG Recordings, Inc. v. Sinott, 300 F. Supp. 2d 993, 998-99 (E.D. Cal. 2004).

B. The Evidence Overwhelmingly Establishes that eBay Knew or Had Reason to Know of the Pervasive Listing of Counterfeit Tiffany Silver Jewelry by Sellers of Purportedly New and Genuine Goods

The unrebutted evidence establishes conclusively that Tiffany has met its burden of proof as to knowledge. Based on the detailed demand letters from Tiffany, the thousands of listings that Tiffany submitted every month and the customer complaints, it is impossible for eBay to deny that it knew, let alone deny that it had reason to know, of the pervasive sale of counterfeit goods. The evidence of the listings of pervasive counterfeit goods here is even more compelling than the evidence of the "rats nest" that existed in Fonovisa. The substantial information of which eBay was aware makes it plain that the knowledge requirement under Inwood is satisfied and that there is no reason to be concerned that eBay's liability is being predicated on a "could reasonably anticipate" standard. See this Memo at 20 n.19, supra.

Tiffany's 2003 and 2004 letters to eBay (PX 489, 490 and 492) provided detailed notice to eBay of the problem.[24] They cannot be dismissed as vague general demand letters. See Fare Deals, Ltd. v. World Choice Travel.com, Inc., 180 F. Supp. 2d 678, 690-91 (D. Md. 2001); Gucci America, Inc. v. Hall & Associates, 135 F. Supp. 2d 409, 420 (S.D.N.Y. 2001).

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[24] Moreover, Tiffany's complaint and the detailed allegations therein, as well as facts revealed during discovery and the course of this action, provided information to eBay that also put eBay on notice.

In the 2004 letter, Tiffany notified eBay that 73.1% of the "Tiffany" items that it purchased in its random 2004 Buying Program were counterfeit. PX 492. eBay complained at trial that it never was given the support for that statement. Tr. 882. Yet, eBay ignored the 2004 letter and did not respond to it or even request (let alone inspect) the material relating to the 2004 Buying Program.[25] Kowalski Decl. ¶¶ 22-23. eBay cannot complain now, particularly when it ignored its own expert's proffer that he could design a probabilistic survey. Tr. 557:10-558:11.

In its May 2003 letter, Tiffany notified eBay that there are no authorized third-party vendors for Tiffany merchandise and that it should therefore be apparent that any eBay seller offering five or more "Tiffany" items was almost certainly offering counterfeits. PX 489. Yet, eBay has regularly allowed its sellers to offer hundreds, even thousands, of listings for "Tiffany" jewelry at a time. For example, in December 2005, Sheila Sharp learned that unauthorized individuals had hacked into her account and had used it, over the course of approximately seven days, to post hundreds of listings of counterfeit "Tiffany" jewelry. Sharp Decl. ¶¶ 6, 9; PX 243. eBay allowed the hacker to sell approximately 300 "Tiffany" items through Ms. Sharp's account, and had to cancel 880 "Tiffany" listings that had been posted. Id.

Yet, if Tiffany's letters to eBay left any doubt, that doubt was eradicated by the huge number of NOCI's that Tiffany has submitted to eBay since 2003. Even prior to Tiffany's May 2003 letter (PX 489), Tiffany had already reported 1,182 listings to eBay in the span of only two

[25] Likewise, in discovery, eBay never examined any of the goods purchased in either the 2004 or 2005 Buying Program.

months.[26] PX 1082. Further, the number of NOCI's continued to increase each year. Zalewska Decl. ¶¶ 74-78; PX 1082. It is telling that, since 2003, Tiffany has filed NOCI's for numerous repeat offenders offering counterfeit Tiffany merchandise.[27] Zalewska Decl. ¶¶ 88-110; PX 1067; Tr. 205:15-206:21. Plaintiffs' Exhibit 1067 lists the individuals who used different eBay user IDs and whom Tiffany reported on multiple occasions. Zalewska Decl. ¶¶ 96-97. There are 163 such individuals, some of whom Tiffany reported on more than five different occasions. PX 1067.

In addition, eBay knew, or had reason to know of, the vast and growing amount of infringing merchandise on its site based on the substantial number of NOCI's that it received every month from many different rights owners. PX 245-283. eBay produced monthly reports showing the number of NOCI's filed per rights owner. Id. The number of NOCI's submitted by the top ten NOCI reporters for each month (in terms of number of NOCI's filed), were: 48,272 NOCI's from October through December 2002; 252,817 NOCI's in 2003; 315,744 NOCI's in 2004; and 417,235 NOCI's in 2005 (and those numbers are probably understated given the reports' inaccuracies). See this Memo at 14 n.15, supra. In all, over the three and one-quarter year period, the top ten monthly reporters alone filed over 1 million NOCI's. Notwithstanding this overwhelming evidence that it has created an ever-growing "rats nest" of infringing merchandise, eBay has offered no evidence that it investigated, much less took any effective measures (prior to late 2006) to remedy the problem and to prevent such merchandise from being offered on its site.

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[26] There is no dispute that eBay was aware that counterfeit Tiffany silver jewelry was being listed and sold on eBay before eBay received Tiffany's May 2003 letter. In response to a question from the Court, Mr. Chesnut testified that, by virtue of the NOCI's that it had received, eBay was aware of the allegations of infringing Tiffany goods on its website and was aware that rights owners generally were concerned about the appearance of infringing goods. Tr. 742:10-742:23. As discussed below, even though eBay contends that it did not ignore this knowledge, eBay admittedly did not investigate the extent of the listing of counterfeit Tiffany silver jewelry on the eBay website. See this Memo at 35, infra.

[27] For example, in September 2006, eBay allowed the seller "thefirstman_vip" to post 3,384 listings for "Tiffany" items at once, Cacucciolo Decl. ¶¶ 41-42; PX 1077, even though Tiffany had previously reported this seller for listing counterfeit Tiffany merchandise. Cacucciolo Decl. ¶ 42. In or about July 2005, eBay allowed the seller "Annag9" to post 696 listings for "Tiffany" items. Zalewska Decl. ¶ 89; PX 816. After eBay notified Tiffany that it had removed this seller's items, PX 818, Tiffany observed the same seller on eBay offering 524 listings for "Tiffany" merchandise. Zalewska Decl. ¶ 91; PX 819. In or about July 2005, eBay allowed the seller "Freshunter" to post 135 listings for "Tiffany" merchandise. Zalewska Decl. ¶ 92; PX 817. After eBay notified Tiffany that it had removed this seller's items, PX 817, in August 2005, Tiffany observed the same seller offering 105 listings for "Tiffany" merchandise. In or about August 2004, eBay allowed the seller "Tracycwazy" to post 113 listings for "Tiffany" merchandise on its site. Zalewska Decl. ¶ 93; PX 807. After Tiffany reported these listings, Tiffany observed the same seller offering 60 listings for "Tiffany" merchandise in August 2004. Zalewska Decl. ¶ 93; PX 808. Other examples include: istclassjewelry4u (PX 806); poshkittycoco (PX 811); rose_sep11 (PX 813); waihang727 (PX 828); bidbid123hk (PX 804); patterwoo (PX 805); e-winterlight (PX 809); gongfu (PX 810); 55bucfan (PX 812); fowlerzbq (PX 814); motorola 1000 (PX 820); lei9262 (PX 823); leon0705 (PX 827); arijosh (PX 829); dellamonto (PX 830); accessoryaddiction (PX 1100-06); 100nonstop (PX 1107-13) and myhsbc (PX 1114-19).

eBay also knew of the significant amount of counterfeit Tiffany jewelry listed on its site from its buyers' complaints that they were deceived into buying fake Tiffany merchandise. During the period October 11, 2004 to December 31, 2004, the only period for which eBay produced consumer complaints, eBay received 125 emails from buyers stating that they had purchased fake Tiffany jewelry.[28] PX 493-625. At least four of these complaints concerned sellers whom Tiffany had previously reported. Compare PX 497, 572 (seller Relaxxx122345), 511 (seller Springnlolo) and 625 (seller Nufkuhs) with PX 1067 (items 36 (at 3-4), 84 (at 8) and 6 (at 14)).

[28] Although Tiffany sought production of all complaints, eBay chose to produce complaints only for this six week time period. Given eBay's control over all of this information, and eBay's failure to come forward with evidence to show that there were no complaints during the entire three year time period at dispute in this action, this Court should draw the adverse inference that there were a substantial number of complaints from consumers about the sale of counterfeit Tiffany silver jewelry starting in 2003 running all the way through 2006. See Zimmerman v. Associates First Capital Corp., 251 F.3d 376, 383-84 (2d Cir. 2001) (approving the jury charge that: "If you find that the defendant could have produced these records, and that the records were within their control, and that these records would have been material in deciding facts in dispute in this case, then you are permitted, but not required, to infer that this evidence would have been unfavorable to defendants."); Sagendorf-Teal v. County of Rensselaer, 100 F.3d 270, 275-76 (2d Cir. 1996) (adverse inference should be drawn for missing witness in control of the party).

POINT II

TIFFANY HAS PROVEN THAT EBAY WAS SUBSTANTIALLY INVOLVED WITH THE SALE OF COUNTERFEIT TIFFANY SILVER JEWELRY

In an unjustified attempt to distance itself from its sellers, eBay contends that it was merely a "classified ad" service.[29] Briggs Decl. ¶ 10; eBay Proposed Findings of Fact ¶¶ 2, 7. The overwhelming and undisputed evidence establishes, however, that eBay was substantially involved with its sellers' activities, as it advised and assisted the sellers in promoting the sale of counterfeit Tiffany goods on eBay. Thus, this Court should find that eBay exercises control over and participates in the sellers' activities.

"Hard Rock and Fonovisa teach us that when measuring and weighing a fact pattern in the contributory infringement context without the convenient 'product' mold dealt with in Inwood Lab., we consider the extent of control exercised by the defendant over the third party's means of infringement." Lockheed Martin Corp. v. Network Solutions Inc., 194 F.3d 980, 984 (9th Cir. 1999) (citing Hard Rock, 955 F.2d at 1148-49, and Fonovisa, 76 F.3d at 265). "Direct control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark permits the expansion of Inwood Lab's 'supplies a product' requirement for contributory infringement." Id. at 984; Habeeba's Dance, 430 F. Supp. 2d at 714.

In Hard Rock, the Seventh Circuit held that a flea market operator who was "not merely a landlord; [but] also advertise[d] and promoted the activity on its premises, [sold] admission tickets to buyers and supervise[d] the premises," could be liable for contributory trademark infringement. Hard Rock, 955 F.2d at 1148. In Fonovisa, the Ninth Circuit held that, by

[29] As set forth in this Point, the evidence makes plain that eBay's contention has no basis in fact. Indeed, eBay is collaterally estopped from making this contention because of a holding made against it in another action. See this Memo at 32, , infra.

charging a daily rental fee to vendors for booth space, supplying parking, conducting advertising, retaining the right to exclude vendors for patent and trademark infringement and charging an entrance fee to customers, the defendant supplied the necessary marketplace for the infringers' sale in substantial quantities. 76 F.3d at 265. See Adidas America, Inc. v. KMart Corp., No. 05-CV-120-ST, 2007 WL 2915594 at *9 (D. Or. Oct. 3, 2007) (defendant's summary judgment motion to dismiss contributory trademark infringement claim denied because the defendant provided the space for the allegedly infringing activities, processed the sales of the allegedly infringing products and received a portion of the gross revenue from those sales).

Here, eBay's online marketplace is akin to the marketplaces in Hard Rock and Fonovisa as eBay provides and controls the necessary marketplace for the infringers' illegal activity.[30] eBay is not a mere classified advertising service. See Hendrickson v. eBay Inc., 165 F. Supp. 2d 1082, 1084 n.2 (C.D. Cal. 2001) (rejecting eBay's characterization of itself as a mere online venue that publishes "electronic classified ads," and finding that "eBay's Internet business features elements of both traditional swap meets — where sellers pay for use of space to display goods — and traditional auction houses where goods are sold in a highest bid process").

Like the flea market operators, but only more so, eBay maintains complete control over who may and may not trade in its marketplace and what may and may not be traded. eBay prohibits the listing of items such as drugs, firearms and alcohol products. PX 4. eBay reviews

[30] eBay has argued that it is different than a flea market operator because it never sees the allegedly infringing items. See eBay Pretrial Opposition Memo at 3. That distinction is unavailing. First, given the evidence regarding eBay's substantial involvement with its sellers and its broad knowledge that the listings involved the sale of counterfeit goods, it does not matter whether eBay can actually see the physical goods. Second, to the extent that eBay purports to review listings on its own initiative to determine if they involve the sale of infringing goods, eBay makes that determination without ever examining the goods. Tr. 589:12-589:24.

listings, and removes them whenever it concludes that its rules are being violated. Chestnut Decl. ¶ 38; Tr. 587:19-588:10.

eBay's financial interests are more closely tied to its sellers than was the case in both Fonovisa and Hard Rock. eBay charges a "rental" fee, i.e., its listing fee. Briggs Decl. ¶ 20; PX 1151. However, unlike the flea market operators, eBay also receives a percentage of the sales price from every completed transaction Id.; Tr. 404:24-405:12. Moreover, eBay takes an additional percentage of the sales price if the transaction is consummated through PayPal. PX 1156.

eBay intimately works with sellers to increase the sales of jewelry, including "Tiffany" jewelry. Until 2003, eBay initially promoted the sale of "Tiffany" jewelry through its direct purchase of sponsored link advertisements on Google and Yahoo!, and thereafter paid affiliates for buying such advertisements on Google. See this Memo at 9-10, supra. Additionally, eBay advertised the availability of "Tiffany" merchandise on its homepage and greeting pages. PX 392; PX 1064. Even as recently as September 2006, eBay was still displaying "Popular Searches" lists telling users that "Tiffany" was the number one searched term in the Jewelry & Watches category. PX 1038. This level of promotion is far greater than the operators' promotional activities in Fonovisa and Hard Rock.

eBay actively encourages its sellers to sell Tiffany jewelry. eBay actively worked with its sellers in the Jewelry & Watches Category. See this Memo at 8-9, supra. As part of these efforts, eBay encouraged its sellers to list "Tiffany" jewelry by telling them that "Tiffany" was one of the "most effective keywords," and had one of the best "Returns on Investment." PX 184; Zeig Dep. 141:21-145:4; see this Memo at 9, supra. For example, in an eBay newsletter provided to its top jewelry sellers, in the section entitled, "Planning for Growth: Accelerate Your

Sales," eBay advised its top sellers to "us[e] recommended keywords to boost sales," and "Tiffany & Co." is among the 10 keywords identified. PX 129.

As noted above, eBay treats its best sellers differently, giving them the label of PowerSeller and various benefits and assistance. See this Memo at 7-8, supra. In fact, eBay holds PowerSellers out to the public as parties who are successful and trustworthy sellers, by virtue of the purported 98% positive Feedback rating that they must have. See PX 988; Tr. 493:12-495:1. Yet, eBay has allowed PowerSellers to exploit that label to list substantial quantities of counterfeit Tiffany silver jewelry. For instance, in September 2006, Tiffany submitted NOCI's for 3,384 listings by a PowerSeller known as "the firstman_vip". PX 1077; Cacucciolo Decl. ¶ 41; Tr. 509:18-512:5. Yet, contrary to the implication of the high positive feedback of 271 that eBay said this PowerSeller had, Tiffany had submitted NOCI's for the firstman_vip in the past, and eBay nevertheless allowed him to continue to list counterfeit silver jewelry as a PowerSeller. Cacucciolo Decl. ¶ 42.

POINT III

TIFFANY HAS PROVEN THAT EBAY FAILED TO FULFILL ITS OBLIGATION TO ACT TO ELIMINATE THE LISTING OF COUNTERFEIT GOODS

eBay insists that its VeRO program is sufficient to satisfy its legal obligation to address the listings of counterfeit Tiffany silver jewelry. In fact, the VeRO program falls far short meeting eBay's legal obligation, and eBay cannot identify any trademark decisions or authorities to support its contention. eBay must be proactive and seek to prevent the listings appearing on its website. It does not satisfy that obligation by shifting the burden to Tiffany and not responding until Tiffany identifies counterfeit listings through the submission of NOCI's. eBay has an affirmative duty to take appropriate action to ensure that counterfeit merchandise does not continue to be offered and/or sold through its site. See Inwood, 456 U.S. at 854; Snow Crest, 64 F. Supp. at 989.

Faced with Tiffany's letters and other evidence that the problem existed, eBay was obligated to conduct an investigation to determine the extent of counterfeit Tiffany silver jewelry available on its site. It did not do so. Tr. 682:24-684:15. In addition, eBay did not analyze the data that it possessed. It did not research and evaluate the number of "Tiffany" listings removed from its site. Tr. 594:13-594:17. Nor did it track the number of sellers suspended because they had posted listings infringing on the TIFFANY Marks. Tr. 597:10-598:10, 631:4-631:9; PX 1136. eBay's inaction, including refusal to investigate the extent of counterfeit Tiffany jewelry on its site, was a breach of its duty. See Fonovisa, 76 F.2d at 265 ("a swap meet can not disregard its vendors' blatant trademark infringements with impunity").[31]

Nor did eBay maintain sufficient measures to prevent the offer and/or sale of counterfeit Tiffany jewelry on its site, as it was obligated to do. Despite the ability to do so, eBay did not materially change its fraud engine filters to screen for counterfeit Tiffany merchandise until late 2006 when this case was awaiting trial. Until that time, eBay employed filters that screened only for listings in which the seller admitted that the item was infringing by listing it as "fake tiffany,"

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[31] eBay had the ability, given all the information maintained by its Trust and Safety Department, to conduct an investigation. It could have examined Tiffany's NOCI's, as well as all of its customer complaints, to assess the extent of the problem. eBay could have run searches for listings with "Tiffany silver" and inspected the titles, descriptions and sales materials for those listings. It also could have conducted a buying program similar to the ones that Tiffany conducted, even though Dr. Ericksen told eBay that he could do so. Tr. 558:1-558:12. eBay did none of this. Tr. 682:24-684:15. Because it did not investigate these facts, eBay was "willfully blind" and should be charged with knowledge and the duty to act. See this Memo at 21, supra.

"replica tiffany" or the like.[32] Tr. 664:4-664:22; DX 125. In fact, eBay could have implemented filters to prevent the listing of counterfeit Tiffany jewelry much earlier. See Piatetsky-Shapiro Decl. ¶ 14. As early as 2004, eBay had the ability to delay listings, including for "Tiffany silver", Tr. 665:4-665:11, 738:12-740:20, and to implement quantity filters that identified listings that offered multiple items. Tr. 659:10-659:13. eBay had the ability to conduct data mining in its computer system to identify sellers, but failed to do so.[33] See this Memo at 17-18, supra.

The VeRO program was not an adequate response, and was not capable of addressing the totality of the problem. It does not prevent items from being listed. PX 968. Because Tiffany cannot observe (and hence report) an item any earlier than the buying public, counterfeit Tiffany items may, and have been, sold before Tiffany can report them to eBay. Cacucciolo Decl. ¶ 47; PX 1075; PX 1077; PX 1078. This problem is compounded by the fact that there are simply too many listings of "Tiffany" silver jewelry for Tiffany to be able to review them all.[34] Cacucciolo Decl. ¶ 47; Zalewska Decl. ¶ 83; see Tr. 206:5-206:17, 626:21-631:9.

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[32] Mr. Chesnut testified that, as part of eBay's purported measures to reduce the amount of counterfeit Tiffany jewelry on its site, eBay trained its CSR's "to look for highly suspicious activity and use [their] best judgment." Tr. 753:3-753:23. He conceded, however, that eBay did not seek Tiffany's advice in identifying "highly suspicious" listings, Tr. 753:24-754:2, despite Tiffany's explicit offer in May 2003 to "discuss a system that can effectively eliminate the Tiffany counterfeiting problem currently plaguing the eBay website." PX 489.

[33] eBay contends that it could not implement the changes that were made at the end of 2006 at any earlier time. The evidence in support of that proposition was provided by eBay's former senior vice president for Trust and Safety and its current Deputy General Counsel, a person who admittedly has no technical knowledge or experience. Tr. 761:6-763:13. In fact, this Court should attach no weight to Mr. Chesnut's testimony given his lack of experience and the fact that he merely recited what he purportedly was told by others within eBay. See Tr. 761:23-762:24. Tellingly, Mr. Chesnut did not give this testimony in his written direct examination. Finally, Mr. Chesnut does not have the expertise or knowledge to rebut the opinion provided by Dr. Piatetsky-Shapiro.

The fundamental inadequacy of the VeRO program is made plain by the significant number of repeat offenders that eBay has allowed to sell counterfeit goods. For example, PX 1067 lists 163 individuals (operating under different eBay user IDs) whom Tiffany had to report on multiple occasions. Further, in spite of the fact that Tiffany was consistently one of the very top reporters of infringing listings, see this Memo at 14, supra, during this time period, thousands of pieces of Tiffany silver jewelry were nevertheless sold. See PX 394.

eBay's and PayPal's Buyer Protection program likewise is not an effective remedy. The Buyer Protection Program does nothing to stop the listing of counterfeit goods — it is only a means to compensate the injured buyer. The injury to Tiffany is neither prevented nor remedied. Further, the program requires a third-party appraisal of a "Tiffany" item in order to receive a refund, which imposes a high burden on the consumer, see, e.g., Badart Decl. ¶ 17, as well as an unfair burden on Tiffany. The deceived buyer may, and frequently does, request Tiffany to inspect the item for authenticity. Lange Decl. ¶ 15; PX 844, 847, 849, 859. That burden further injures Tiffany's relationship with its potential customers. Lange Decl. ¶¶ 13-16.

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[34] eBay maintains that, if Tiffany used the "API" system with a third party, the VeRO program would eliminate this problem. Tr. 692:13-695:10. The only evidence in the record about the "API" was in Mr. Chesnut's unsubstantiated testimony. Tr. 757:16-759:7. eBay has not produced any evidence that eBay ever offered this feature to Tiffany. Tr. 757:16-759:7. eBay also criticizes Tiffany for not regularly using the VeRO Reporting Tool ("VRT"). Chesnut Decl. ¶ 25. Tiffany tried to use such tools, but VRT and Ranger Online were ineffective. Zalewska Decl. ¶ 47 n.4; Tr. 227:14-228:2. Neither program was able to capture all the "Tiffany" listings. Id. More importantly, none of them (including API) eliminated the need to devote substantial blocks of time to examine each and every listing one by one. Tr. 230:3-230:23, 629:22-631:3 (Chestnut); Zalewska Decl. ¶ 47, n. 4. Finally, the Court may take judicial notice of the fact that, contrary to Mr. Chesnut's testimony, no reference to the "API" feature for rights owners appears on eBay's website. See Fed. R. Evid. 201(b)(2) & (f); 2 Jack B. Weinstein, Weinstein's Federal Evidence § 407.04[3] at 407-09 (2d ed. 2007); Hendrickson, 165 F. Supp. 2d at 1084 n.2.

As demonstrated by the 2004 and 2005 Buying Programs, a very high percentage of counterfeit silver goods are routinely listed on eBay.[35] See Mantis Decl. ¶ 20; PX 433, 434; Tr. 305:7-306:3. eBay has proffered no evidence, other than general unsubstantiated assertions by its witnesses, that it took affirmative steps prior to late 2006 to prevent such listings from going on its site.

POINT IV

TIFFANY'S EFFORTS TO POLICE ITS TRADEMARKS ARE NOT RELEVANT TO THE DETERMINATION OF EBAY'SLIABILITY

In an attempt to deflect attention from its own breaches of its legal obligations, eBay attempted to put on trial whether Tiffany has done enough to enforce and protect the TIFFANY Marks. See, e.g., Tr. 27, 872-77. As a result, testimony was elicited from two of Tiffany's witnesses regarding Tiffany's enforcement activities. The issue of Tiffany's enforcement activities, however, is not pertinent to the issues to be determined by this Court.

There is no dispute that Tiffany's trademarks are strong. eBay has conceded this point. Stipulated Facts ¶ 3; see Tr. 180:12-181:10. Thus, the evidence regarding Tiffany's enforcement activities is irrelevant. See 2 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 17:17 at 17-33 (4th ed. 2007) ("it appears that the only relevancy of failure to

[35] The two Buying Programs demonstrated that approximately 75% of the listings involve counterfeit goods. That data is reliable, as the amount of counterfeit goods randomly purchased in the two Buying Programs was consistently the same for each day of the Buying Program, with each of the 20 days having a similar high percentage of counterfeit goods. Tr. 305:7-306:3. Even eBay's expert acknowledged that the design was valid when viewed as 20 individual studies. Tr. 533:4-536:14. Further, although he challenged aspects of the methodology of the two Buying Programs, he conceded that at a minimum 30% of the goods were probably counterfeit, and that the number could even be materially higher than 70%. Tr. 555:5-555:12.

prosecute others is as to the possible impact such failure may have on the strength of the plaintiff's mark").

It is well-established that a purported "failure to prosecute" other counterfeiters "is not a 'defense,' nor should it be." 2 McCarthy on Trademarks and Unfair Competition § 17:17 at 17-33; see STX, Inc. v. Bauer USA, Inc., 43 U.S.P.Q.2d 1492, 1502 (N.D. Cal. 1997) ("[E]vidence of other potential infringers is 'irrelevant' to a suit against a particular infringer."); Council of Better Business Bureaus, Inc. v. Better Business Bureau, Inc., 200 U.S.P.Q. 282, 297 (S.D. Fla. 1978) ("the existence of other infringers is irrelevant [because] a defendant trademark infringer cannot rely upon the wrongdoing of others to exculpate itself from its own infringing activities.").

Moreover, even when policing is arguably relevant (i.e., when assessing a mark's strength), trademark owners are not expected to chase after every infringer. See, e.g., Louis Vuitton, 875 F.2d at 588; Elizabeth Taylor Cosmetics Co. v. Annick Goutal, S.A.R.L., 673 F. Supp. 1238, 1248 (S.D.N.Y. 1987); Playboy Enterprises, Inc. v. Chuckleberry Publishing, Inc., 486 F. Supp. 414, 422-23 (S.D.N.Y. 1980); Cuban Cigar Brands N.V. v. Upmann International, Inc., 457 F. Supp. 1090 (S.D.N.Y. 1978), aff'd mem., 607 F.2d 995 (2d Cir. 1979). Decisions as to when and where to prosecute infringers are left to a party's sound business judgment. See, e.g., Engineered Mechanical Services, Inc. v. Applied Mechanical Technology, Inc., 584 F. Supp. 1149, 1160 (M.D. La. 1984) ("The owner of a mark is not required to constantly monitor every nook and cranny of the entire nation and to fire both barrels of his shotgun instantly upon spotting a possible infringer. Lawyers and lawsuits come high and a financial decision must be made in every case as to whether the gain of prosecution is worth the candle."); Tea Board of India v. Republic of Tea, Inc., 80 U.S.P.Q.2d 1881, 1888 (T.T.A.B. 2006).

Indeed, the courts recognize that, in the case of counterfeiting, the pursuit of infringers is particularly difficult and pursuing a contributory infringer is often a means to a more effective result against the proliferation of counterfeit goods. See Fonovisa, 76 F.3d at 264 ("it would [have been] difficult for the infringing activity to take place in the massive quantities alleged without the support services provided by the swap meet."); Louis Vuitton, 875 F.2d at 589 ("It is not inequitable to enforce one's legal rights, whereas the defendants were at best careless in purchasing brand-name merchandise from an itinerant peddler without inquiry as to the source."); S. Rep. No. 98-526 at 8 (1984), reprinted in 1984 U.S.C.C.A.N. 3628, 3634; see also In re Aimster Copyright Litigation, 334 F.3d 643, 645-46 (7th Cir. 2003) ("Recognizing the impracticability or futility of a copyright owner's suing a multitude of individual infringers . . . , the law allows a copyright holder to sue a contributor to the infringement instead, in effect as an aider and abettor." (citation omitted)), cert. denied, 540 U.S. 1107 (2004).

Consequently, eBay may not assert as a defense that Tiffany has not done enough to enforce its trademarks and that Tiffany could have done more to pursue individual sellers of counterfeit goods on eBay, despite Tiffany's having sued four such sellers. Further, the evidence demonstrates that Tiffany exercised, as it is entitled to do under the trademark laws, its business judgment in deciding what parties to sue and not to sue and how to best pursue enforcement activities. See this Memo at 10-11, supra.

POINT V
THE COURT SHOULD DETERMINE DAMAGES AFTER DETERMINING THAT EBAY IS LIABLE FOR CONTRIBUTORY TRADEMARK INFRINGEMENT AND GRANTING INJUNCTIVE RELIEF

Plaintiffs seek an accounting of eBay's profits and prejudgment interest pursuant to 15 U.S.C. § 1117 (a) and (b), or statutory damages pursuant to § 1117(c)(2). Since the last information that Tiffany received regarding eBay's profits for the sale of Tiffany merchandise in the Jewelry and Watch category was as of August 2005, Tiffany requires further discovery on the issue of an accounting of profits and any offsets that eBay proposes against such profits. Pursuant to 15 U.S.C. § 1117(c), a plaintiff may make its election "at any time before final judgment is rendered by the trial court . . . ."[36]

In addition, since defendant's profits are relevant to the court's determination of statutory damages, see Sara Lee Corp. v. Bags of New York, Inc., 36 F. Supp. 2d 161, 166 (S.D.N.Y 1999), the election should await a determination of profits. It is only when plaintiffs have such further information that they will be able rationally to exercise their election between an accounting of profits and statutory damages. See Tommy Hilfiger Licensing, 2003 WL 22331254 at * 28; Nike v. Variety Wholesalers, Inc., 274 F. Supp. 2d 1352, 1374 (S.D. Ga. 2003), aff'd, 107 Fed. Appx. 183 (11th Cir. 2004); New York Chinese TV Programs, Inc. v. U.E. Enterprises, Inc., No. 89 Civ. 6082, 1991 WL 113283 at *15 (S.D.N.Y. June 14, 1991), aff'd, 954 F.2d 847 (2d Cir.), cert. denied, 506 U.S. 827 (1992); Joel F. Glazier v. First Media Corp., 532 F. Supp. 63, 68 (D. Del. 1982).

Finally, plaintiffs are entitled to an award of attorneys fees pursuant to 15 U.S.C. § 1117(a) and or (b), as well as costs, the amounts of which should logically be submitted at the close of proceedings as to profits and damages.

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[36] It is common for courts in this jurisdiction to defer injury or damages until after a finding of liability. See Nike, Inc. v. Top Brand Co., No. 00 Civ. 8179, 2006 WL 2946472 at *1 (S.D.N.Y. Feb. 27, 2006); Danone Asia PTE, Ltd. v. Happy Dragon Wholesale, Inc., No. Civ. 05-16-11, 2006 WL 845573 at *7 (E.D.N.Y. 2006); Duracell, Inc. v. J.A. Distribution, Inc., No. 88 Civ. 7462, 1990 WL 319974 (S.D.N.Y. Dec. 6, 1990), aff'd, 946 F.2d 882 (2d Cir. 1991).

CONCLUSION

For the foregoing reasons, this Court should enter findings and conclusions that eBay violated the Lanham Act, New York law and common law with respect to the TIFFANY Marks and should enter an order granting Tiffany permanent injunctive relief requiring eBay to take such affirmative steps on an ongoing and continuing basis that are technically feasible to screen for and to prevent the listing of counterfeit Tiffany silver jewelry on eBay auction sites and to remove any such listings that may appear on any of eBay's auction sites.

In addition, Tiffany respectfully requests that the Court defer its determination of damages and entitlement to attorneys' fees until after the conclusion of such a hearing. In accordance with 15 U.S.C. § 1117, the Court should issue an order setting a schedule for: (i) discovery on the issue of eBay's profits; and (ii) the Court's determination of profits and statutory damages as well as Tiffany's attorney's fees and (iii) Tiffany's election between statutory damages and eBay's profits.

Dated: New York, New York
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